
Finance Committee

HB 1092

Brief Description: Eliminating the expiration date on a business and occupation tax exemption for certain water services.

Sponsors: Representatives Bush, Morrell, McDonald, Miloscia, Campbell, Shabro, O'Brien, Lantz, Boldt, Edwards and Talcott.

Brief Summary of Bill

- Extends permanently the business and occupation tax exemption for certain amounts received by small water systems.

Hearing Date: 2/27/03

Staff: Bob Longman (786-7139).

Background:

The business and occupation (B&O) tax is Washington State's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited to the state general fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Firms that provide services are generally taxed at a rate of 1.5 percent.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, a number of exemptions, credits, deductions, and other preferences have been enacted for specific types of business activities. One example is the small business credit, in which businesses that have an annual tax liability of \$420 or less may take a full credit against taxed owed.

In 1997, the Legislature enacted legislation that exempted certain businesses from paying public utility and B&O taxes on amounts received for water services. The legislation, which was further amended in 1998, applies to:

1. Water-sewer districts and irrigation districts that:
 - a. Serve fewer than 1,500 connections; and

- b. Charge a residential water rate exceeding 125 percent of the average statewide water rate.
2. Water systems owned or operated by a satellite system management agency that:
 - a. Serve fewer than 200 connections; and
 - b. Charge a residential water rate exceeding 125 percent of the average statewide water rate.

A water system or irrigation district claiming these tax exemptions must supply proof to the Department of Revenue (DOR) that at least 90 percent of the value of the tax exemptions will be used to repair, equip, upgrade, or maintain the system. The tax exemptions expire on July 1, 2003.

Data from the DOR indicates that an average of 58 businesses that provide water services have taken either the B&O or the PUT exemption on an annual basis, resulting in an average total taxpayer savings of about \$400,000 annually.

Summary of Bill:

The expiration date on the business and occupation tax exemption for small water systems services is eliminated, making the exemption permanent.

Appropriation: None.

Fiscal Note: Requested on February 21, 2003.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.